Discussion of: “Why Did Some Banks Perform Better during the Credit Crisis?”
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Overview

- Was the crisis special or structural?
- Many assertions, little evidence.
  - Bad incentives?
  - Short-term funding?
  - Corporate governance?
  - Bank regulation too lax?
  - Capital too low?
- What explains the cross-section performance of international banks during the crisis?

Sample

- Sample: Panel of international banks with >$10 billion in assets in 2006. (N=1,245)
- Further: loan/assets > 10%; deposit/asset > 20% (e.g., rules out Northern Rock. N=442.
- Banks with assets > $50 billion →N=98.
- Caveats:
  - No U.S. investment banks; no non-bank banks (e.g., GMAC; CIT).
  - Some important data limitations;
  - Governments intervene, distorting returns.

The Experiment

- Regression (pure panel);

Stock $\text{returns}_{\text{crisis}}$ = 2006 characteristics + error

- Characteristics include measure of capital; governance characteristics; regulation indices; etc.

Highlights of Results

- Banks that relied more heavily on deposit financing in 2006 fared better.
- Differences in bank regulation do not really matter.
  - Tighter regulation not associated with better performance.
  - Banks in countries with deposit insurance did not perform worse.
- Poor governance not that important.
  - Banks with shareholder-friendly boards performed worse and were not less risky.
  - Blockholder presence not important.
- Banks in countries that were importers of capital did not perform worse.

Some Surprising Results

- Worst performing banks more diversified and had less ex ante risk.
- Banks that performed better in 2006 did worse in the crisis.
- Banks with SIV exposure not worse.

Comment 1: Governance

- There is no theory that says that “bad governance” leads to risk-taking.
- Must be “moral hazard” – but no deposit insurance at investment banks (deposit insurance not significant anyway).
- No support incentives conflicts. But, no measures of compensation.
- Gropp and Köhler (2010), Cheng, Hong, Scheinkman (2010), Kim (2010), Fahlenbach and Stulz (2010).
- Tentative conclusion –hard to find evidence of incentives problems.

Comment 2: Crisis

- What does this tell us about the crisis?
- Not about causes. But, arguments that "the fragility of banks financed with short-term funds raised in the money markets are strongly supported by our empirical work." Not so clear.
- He, Khang, Krishnamurthy (2010) – U.S. commercial bank balance sheets grew during the crisis. What about this sample?

Comment 3: Real Effects and Bank Failures

- Why not look at loan growth? Which banks made more loans?
- Banks failed during the crisis – tricky to define – these are (presumably) excluded. Look at this group?

Final Thoughts

- Much to do to try to refine these conclusions, but a fantastic start!

- Full speed ahead!